

Message Text

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SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK DEC 19-25

1. SUMMARY: FOREIGN EXCHANGE MARKET BECAME HECTIC TUESDAY WHEN SOVIETS BEGAN SELLING LARGE AMOUNTS DOLLARS. RATE DECLINED FROM 2.44 TO 2.42 BUT SNB INTERVENTION BROUGHT RATE BACK TO 2.43. CLOSING RATE FRIDAY WAS 2.44. GOLD PRICE ROSE SLIGHTLY TO 132. CAPITAL MARKET RECORDED RECORD VOLUME OF ISSUES IN 1976. PARLIAMENT PASSED 1977 BUDGET. BULOVA WATCH CO WILL CLOSE ITS NEUCHATEL PLANT. GOVT REPORT SHOWS THAT MOST FIRMS HAVE USED EMERGENCY RESERVES TO FINANCE THEIR PRODUCTION. NUMBER OF FIRMS WORKING SHORT HOURS ROSE SLIGHTLY
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IN OCT. INDUSTRIAL PRODUCTION ROSE SLIGHTLY IN THRID QTR 1976.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: FOREIGN EXCHANGE MARKET WAS HECTIC TUESDAY WHEN SOVIETS SOLD LARGE AMOUNTS OF

DOLLARS CAUSING DOLLAR RATE AGAINST SWISS FRANCS TO DROP FROM SF 2.44 TO SF 2.42 WITHIN ONE HOUR BEFORE SWISS NATIONAL BANK INTERVENED TO BRING RATE BACK TO SF 2.32. DOLLAR CLOSED THIS WEEK AT 2.44 WHILE DM APPRECIATED SLIGHTLY. GOLD PRICE, WHICH HAD DECLINED PREVIOUS WEEK, ROSE TO 132. RATES FOLLOW.

	12/20 (OPEN)	12/27 (CLOSE)
SPOT DOLLAR	2.4502	2.4480
FORWARD DISCOUNT (PCT. P.A.)		
ONE MONTH	3.34	3.36
2 MONTHS	3.07	3.19
3 MONTHS	2.94	3.01
6 MONTHS	2.84	2.89
12 MONTHS	2.80	2.89
SF/DM	102.77	103.33
GOLD	130	132.75

3. CAPITAL AND MONEY MARKET: CAPITAL MARKET REMAINS HIGHLY LIQUID. CALL MONEY RATE CONTINUED AT 0.25 PERCENT. STOCK MARKET ACTIVE WITH PRICES UP; SKA INDEX (1959 - 100) UP TO 213.7 DEC 22. AVERAGE CONFEDERATION BOND YIELD SLIPPED SLIGHTLY TO 4.44. SWISS NATIONAL BANK HOLDINGS OF FOREIGN EXCHANGE FOR WEEK ENDING DEC 23 ROSE SF 2,387 MILLION TO SF 19,370 MILLION AND ROOSA BONDS DECLINED SF 23 MILLION TO SF 5,245 MILLION. BANK CREDIT ISSUED BY 17 REPORTING BANKS ROSE SF 122.5 MILLION IN OCT TO REACH SF 1,158.6 MILLION FOR FIRST 10 MONTHS 1976, EQUIVALENT TO AVERAGE ANNUAL RATE INCREASE OF 6.6 PERCENT. BORROWINGS ON SWISS CAPITAL MARKET UNCLASSIFIED

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REACHED RECORD SF 12 BILLION IN 1976, COMPARED SF 8.6 BILLION 1975. SWISS BORROWERS PAID AVERAGE 4.78 PERCENT INTEREST IN 1976, COMPARED 6.19 PERCENT IN 1975. INTEREST PAID BY FOREIGN BORROWERS DECLINED FROM 6.62 PERCENT IN 1975 TO 5.76 PERCENT IN 1976. HOWEVER, AN ISSUE BY JUTLAND TELEPHONE CO., DENMARK OF SF 60 MILLION AT 5.5 PERCENT INTEREST WAS NOT FULLY SUBSCRIBED. BROKERS ATTRIBUTED FAILURE TO POOR TIMING AND INTEREST RATE WHICH WAS PEGGED TOO LOW.

ECONOMIC

4. PARLIAMENT: WINTER SESSION OF PARLIAMENT CLOSED WITH ADOPTION OF 1977 FEDERAL BUDGET. PROJECTED DEFICIT IS SF 1,767 MILLION. PARLIAMENT CUT PROPOSED BUDGET BY SF 180 MILLION TO SF 16,000 MILLION. PROJECTED BUDGET EXPENDITURES FOR 1977 ARE SF 197.7 MILLION, OR 1.2 PERCENT BELOW 1976. EXPECTED 1977 DEFICIT IS 3 PERCENT HIGHER

THAN IN 1976. PARLIAMENT ALSO APPROVED IMPLEMENTATION OF 10 PERCENT VALUE ADDED TAX TO REPLACE PRESENT 3 PERCENT TURNOVER TAX. VAT MUST STILL BE APPROVED BY VOTERS IN JUN REFERENDUM.

5. WATCH INDUSTRY: BULOVA WATCH CO ANNOUNCED THAT IS WILL CLOSE ITS NEUCHATEL PLANT BY END 1977 AFTER PHASED TRANSFER OF OPERATIONS TO ITS PLANT AT BIENNE. JOB OFFERS WILL BE MADE TO ALL 130 EMPLOYEES AT NEUCHATEL. PLANS TO CONSOLIDATE OPERATIONS WERE FIRST ANNOUNCED IN JAN 1976 AND WERE TO TAKE PLACE DURING THE YEAR, BUT MANAGEMENT LATER AGREED TO DELAY IN NEGOTIATIONS WITH UNIONS. MEANWHILE, STELUX OF HONG KONG BOUGHT 27 PERCENT OF BULOVA. STELUX HAS REPORTEDLY ORDERED TWO MILLION WATCHES FROM BULOVA SWISS. A COMMUNIQUE STATED THAT BULOVA PLANS TO LAUNCH NEW PRODUCT LINES, CONCENTRATING MORE ON ELECTRONIC QUARTZ WATCHES AND LESS ON MECHANICAL WATCHES. BULOVA EXPLAINED THAT NEW TECHNOLOGY REQUIRES CONCENTRATED PRODUCTION, AND THAT BULOVA WILL CONTINUE UNCLASSIFIED

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CARRY OUT RESEARCH AND MANUFACTURING OF NEW PRODUCTS IN SWITZERLAND.

6. EMERGENCY RESERVES: RESULTS WERE RELEASED OF GOVT SURVEY ON USE OF FIRMS' EMERGENCY RESERVES WHICH WERE FREED APR 1975 TO HELP CREATE JOBS IN INDUSTRY. LARGEST AMOUNT, 29 PERCENT, WAS USED TO PRODUCE MACHINES AND EQUIPMENT FOR USE BY INDUSTRY ITSELF, WHICH IS AN INDICATION OF AMOUNT UNUSED CAPACITY IN SWISS INDUSTRY. 19 PERCENT WENT FOR RESEARCH AND DEVELOPMENT TO LAUNCH NEW PRODUCTS ON THE MARKET. 17 PERCENT WENT FOR PURCHASES OF TECHNICAL EQUIPMENT AND INSTALLATIONS FROM OTHER SWISS FIRMS, ESSENTIALLY TO RATIONALIZE OPERATIONS. 10 PERCENT WAS USED TO DEVELOP EXPORTS. THE REMAINDER WAS SPREAD OVER A LARGE NUMBER OF USES.

7. INDUSTRIAL OUTPUT: GOVT'S PROVISIONAL FINDINGS INDICATE THAT INDEX OF INDUSTRIAL PRODUCTION (1963 - 100) ROSE TO 135 IN THRID QTR 1976, ONE PERCENT ABOVE THIR DQTR 1975. INCREASED OUTPUT WAS LED BY CLOTHING AND CHEMICAL INDUSTRIES. PRODUCTION OF PAPER, LEATHER, RUBBER, PLASTICS, TEXTILES, FOOD, BEVERAGES AND METALS WAS ALSO HIGHER. HOWEVER, QUARRYING, LUMBER, ENGINEERING AND WATCH INDUSTRIES REGISTERED LOWER OUTPUT.

8. LABOR: GOVT ANNOUNCED THAT 931 FIRMS WERE OPERATING ON REDUCED HOURS IN NOV, COMPARED TO 911 IN OCT. SOME 19,733 WORKERS WERE WORKING SHORT TIME IN NOV, 656 LESS THAN IN OCT.
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